

# Healthcare Reform: A Sketch of Some Spokane Impacts

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Talk to the LMEA Spokane Economic Symposium

5.27.2011

# Patient Protection & Affordable Care Act: The biggest change in healthcare since Medicare

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# Sources of my information



- Robert Wood Johnson Foundation
- Kaiser Family Foundation
- *Health Affairs*
- Congressional Budget Office
- Think tanks: Urban Institute
- Healthcare professional organizations
- Institute-compiled data (*Spokane Trends*)
- Workforce Explorer!



# Healthcare reform: Will it happen? House GOP says *no*.

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**THE WALL STREET JOURNAL.**  
WSJ.com

POLITICS | FEBRUARY 18, 2011, 12:18 P.M. ET

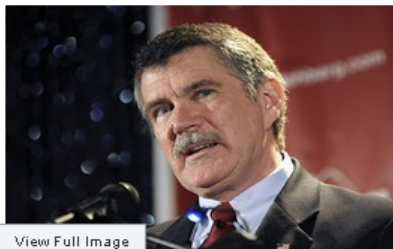
## House GOP Pushes to Derail Health Law

By ALAN ZIBEL And BRENT KENDALL

WASHINGTON—House Republicans pushed Friday to derail the Obama administration's health-care overhaul, preparing to bar the federal government from spending money on the plan.

Rep. Denny Rehberg (R., Mont.) put the ban in an amendment to a budget bill funding the federal government through the remaining months of fiscal 2011.

"We wanted to create jobs. You wasted time on the health-care reform," Mr. Rehberg said on the House floor, addressing Democrats. A vote on the amendment by the Republican-led House was expected later Friday.



[View Full Image](#)

Associated Press

Congressman Denny Rehberg

Democrats said the Republican plan would reduce health-care options for Americans, increase the federal deficit and make it more difficult to pass a budget this year.

"Instead of searching for common ground, this amendment intensifies warfare," said Rep. Sander Levin, (D., Mich). "Republicans have become a wrecking crew."

Once House lawmakers complete the budget bill, the Senate must still take up the bill or pass its own version of spending legislation. The Democratic-controlled Senate is unlikely to agree to bar the federal government from spending money to implement the health law.

Congress must pass some form of spending bill by midnight March 4, when the current temporary funding bill lapses. Otherwise the federal government would be forced to shut down.



# But other GOP leaders say yes, in a different form

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POLITICS | MAY 13, 2011

## Romney Defends State's Health Plan

By JONATHAN WEISMAN

ANN ARBOR, Mich.—Former Massachusetts Gov. Mitt Romney on Thursday delivered an unequivocal defense of the health-care plan he helped shepherd into law as governor, saying it had succeeded in covering the uninsured at a "modest" cost and was the right approach for the people who elected him.



Former Massachusetts governor and potential GOP presidential candidate Mitt Romney defended the state's health care plan he instituted. He also sought to distance himself from President Obama's health care plan.

At the same time, he sharply criticized the national health-care law that President Barack Obama has said was modeled on Mr. Romney's, calling it a federal "power grab" and a "government takeover of health care."

The speech was designed to put behind him what has become his biggest political impediment to gaining the Republican nomination—the Bay State health plan that conservatives liken to the federal law they disparage as "ObamaCare."

Some Republicans who have made the federal health law the rallying cry for a conservative resurgence are openly questioning how they could put forward a nominee who, as governor, championed and secured his own universal health plan, one that included a state mandate that individuals buy health insurance.

"I had a half-million people who I was elected to serve who were frightened because they did not have insurance," Mr. Romney said in his defense, speaking favorably of insurance coverage that now covers 98% of Massachusetts residents.

MAY 16, 2011, 9:57 AM ET

## Gingrich on Health Care: Yes on Individual Mandate, No on GOP Medicare Overhaul

Newt Gingrich, now [officially a candidate](#) for the Republican presidential nomination, is staking out some of his positions on the divisive issue of health-care overhaul.

[As the WSJ reports](#), the former Speaker of the House dismissed the plan to rejigger Medicare put forth by the current GOP House majority as "right-wing social engineering," while also endorsing the individual mandate to buy insurance that is vilified by critics on the right.

The [Medicare plan spearheaded by Rep. Paul Ryan](#) would essentially replace the government insurance plan with vouchers to help seniors purchase private coverage. (The change would apply only to Americans aged 55 and under.) But the value of those vouchers would rise only as fast as overall consumer inflation, which has been [outpaced by the rise in health-care costs](#) for years. And that, critics say, would leave beneficiaries on the hook for rising health costs.



# Public appears to be split, with confusing rising

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THE WALL STREET JOURNAL

WSJ.com

MARCH 18, 2011, 9:42 AM ET

## Poll: Americans Are (Still) Confused About Health-Care Overhaul Law

More than half of Americans say they don't fully understand the health-care overhaul law, according to the [latest Kaiser Family Foundation tracking poll](#).

The 53% who say they're confused is only slightly less than the 55% who reported the same last April, shortly after the law was passed. The confusion rate dipped to a low of 42% in June in the past year.

[Last month's Kaiser poll found](#) that almost half of those surveyed thought — incorrectly — that the law had been repealed.

In general, people remain divided in their feelings about the law, with 42% viewing it favorably and 46% viewing it unfavorably, Kaiser says. And not surprisingly, people identifying as Democrats generally have a positive view, while Republicans are strongly opposed. Independents are split, though they're leaning towards a negative view (49%) rather than a positive one (37%).

When the provisions of the law are evaluated individually, the only one that a majority of people say should be eliminated is the consistently unpopular mandate that most adults buy insurance — but the response depends on how the question is phrased. (Explain that without the mandate, people might wait until they're ill to buy coverage, for example, and support for its repeal drops to 48%.)

Lately the Obama administration has been saying it's willing to give the states flexibility to carry out the requirements of the law, [as the WSJ reports today](#). On the face of it, that's a popular strategy, according to the poll, with 66% of respondents saying that "if states can provide coverage that is equally comprehensive and affordable, they should be permitted to substitute their plan." A majority of people identifying as Democrats, Republicans and independents say that flexibility option should be made available before the health law's designated date of 2017. But support drops off sharply for that concept if the states' plans cover fewer people or offer more limited coverage.



# Approach of talk

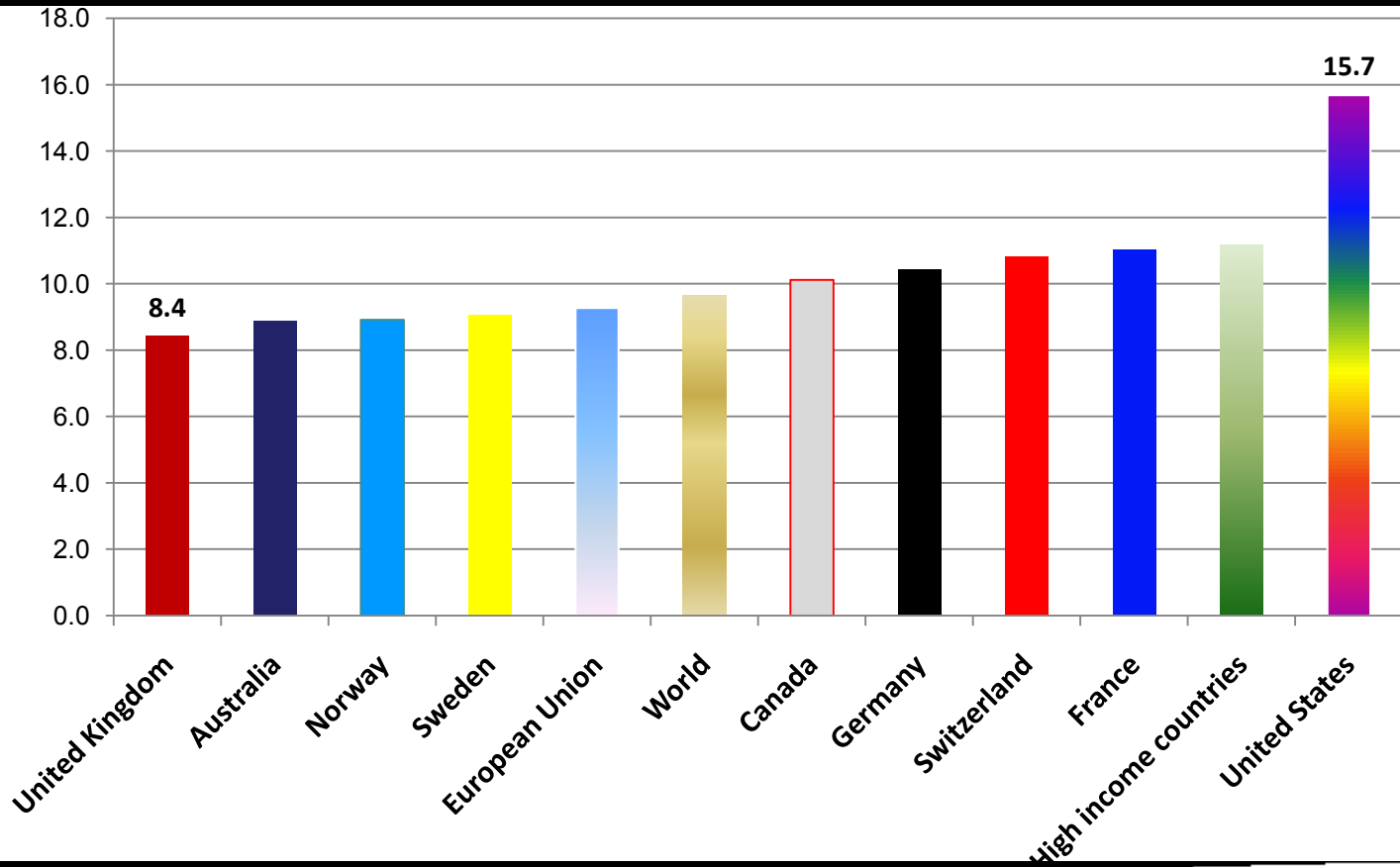
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- Assume the law (ACA) largely stays, although modifications (state waivers) may occur & timeline may change
- Will present some background trends, local, state, national & international levels
- Look at how the ACA might affect local hospitals
- Touch on ACA's rules for *businesses* & possible scenarios for Spokane businesses

# How did we get to this point? US spending on healthcare

(World Health Organization & World Bank)

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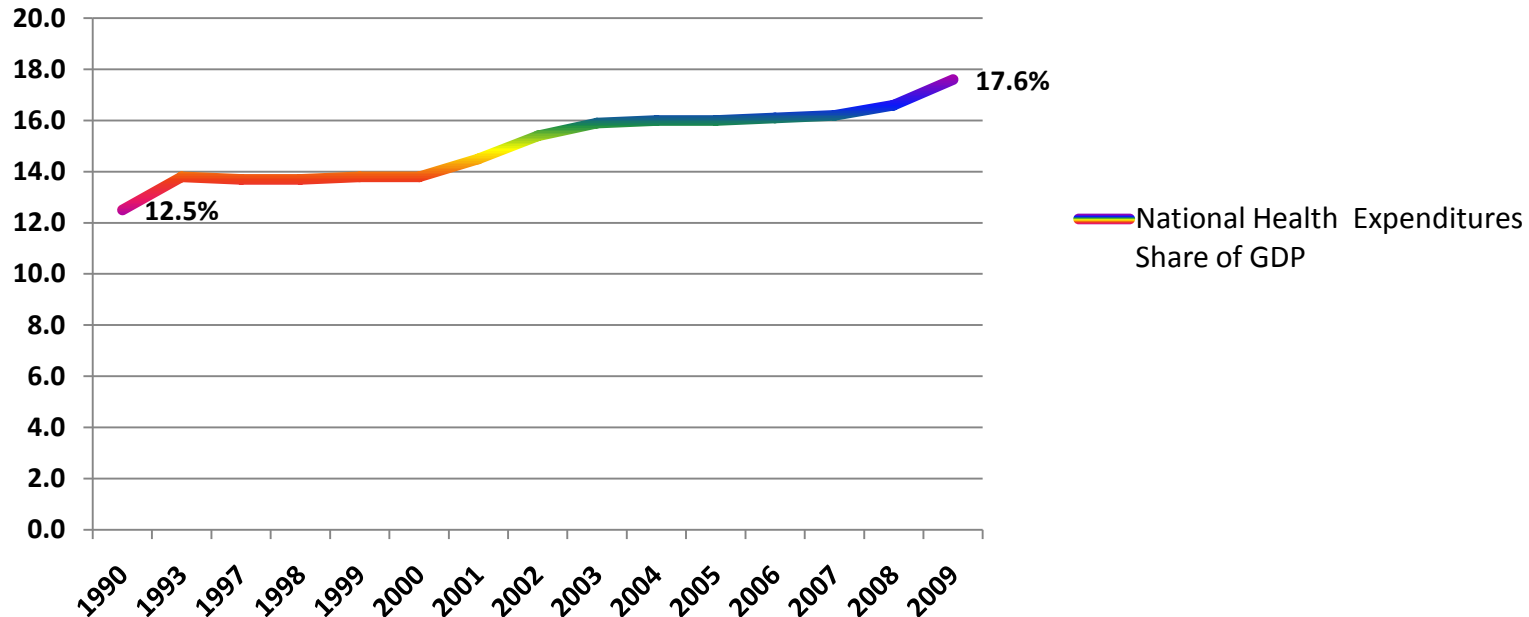




# U.S. health spending: taking an ever larger bite of the economy *(CMS)*

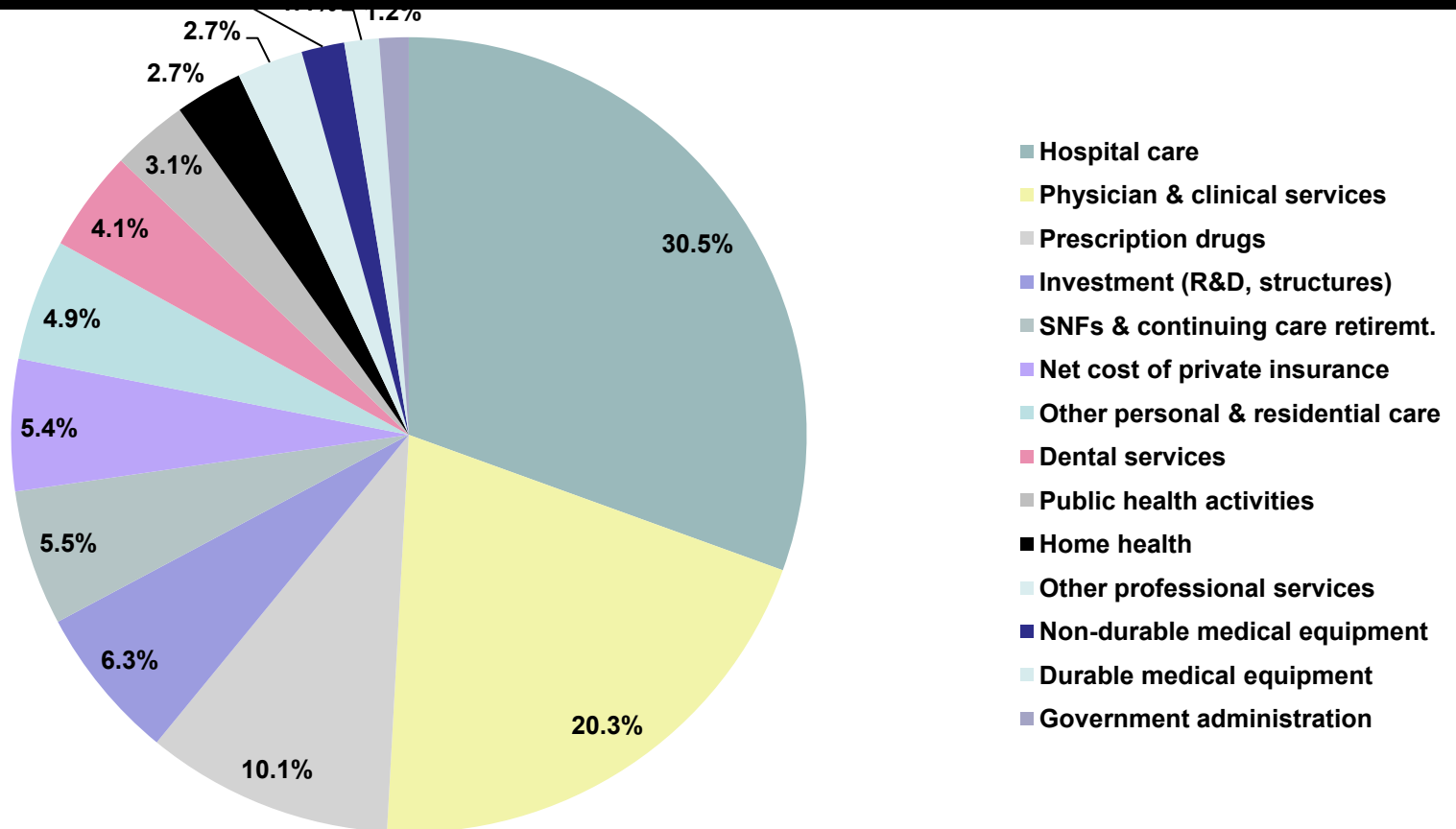
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National Health Expenditures as Share of GDP



# How ~\$2.5T was spent on healthcare in 2009: by shares

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# 1<sup>st</sup> challenge: how to “bend the cost curve”?

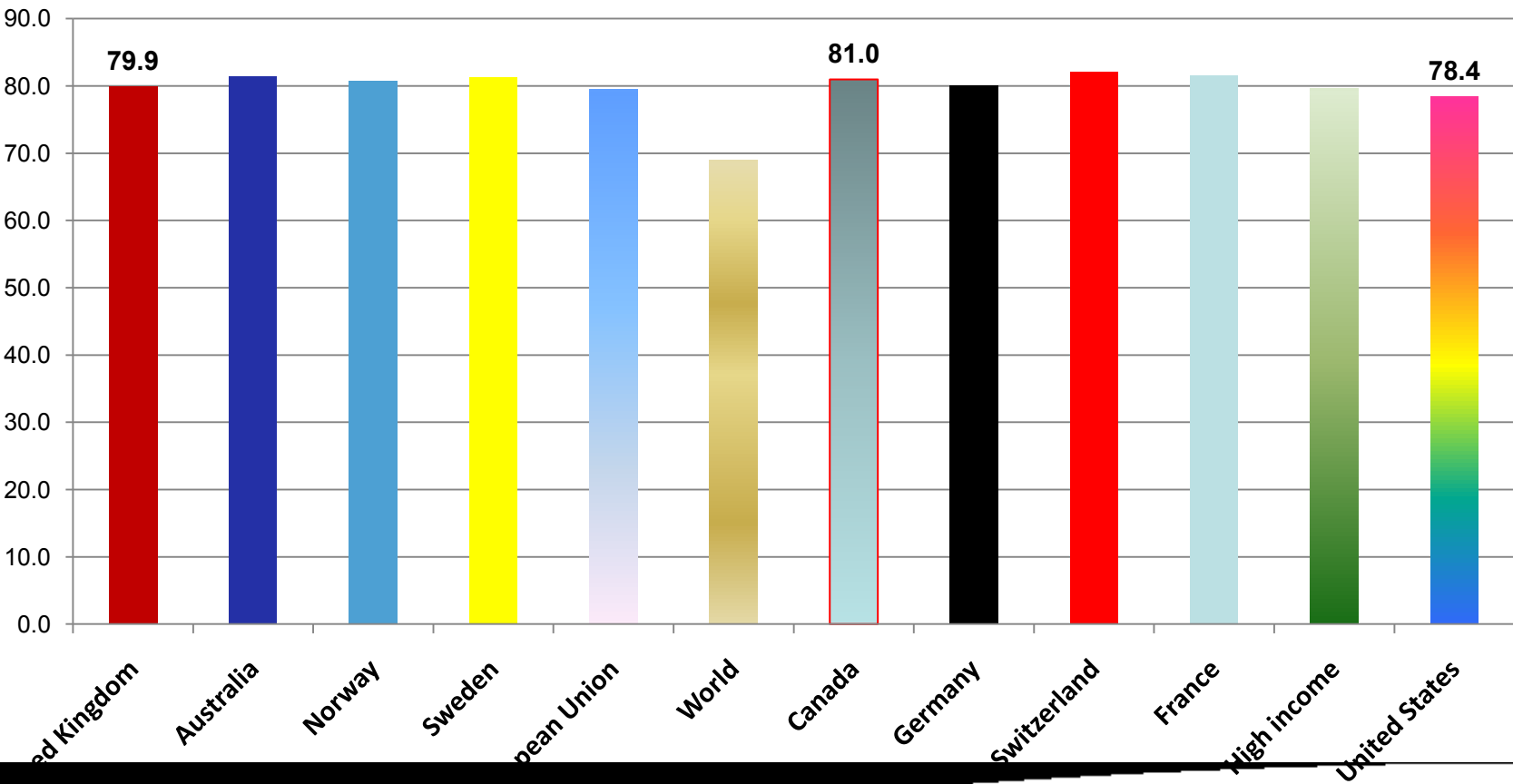
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- Progress has been made recently
- Nonetheless, health expenditures still growing faster than GDP
- How much does the ACA address this?

# In return for 17% of GDP, what does the U.S. health system deliver?

World Bank, based on WHO data: <http://data.worldbank.org/indicator/SP.DYN.LE00.IN>

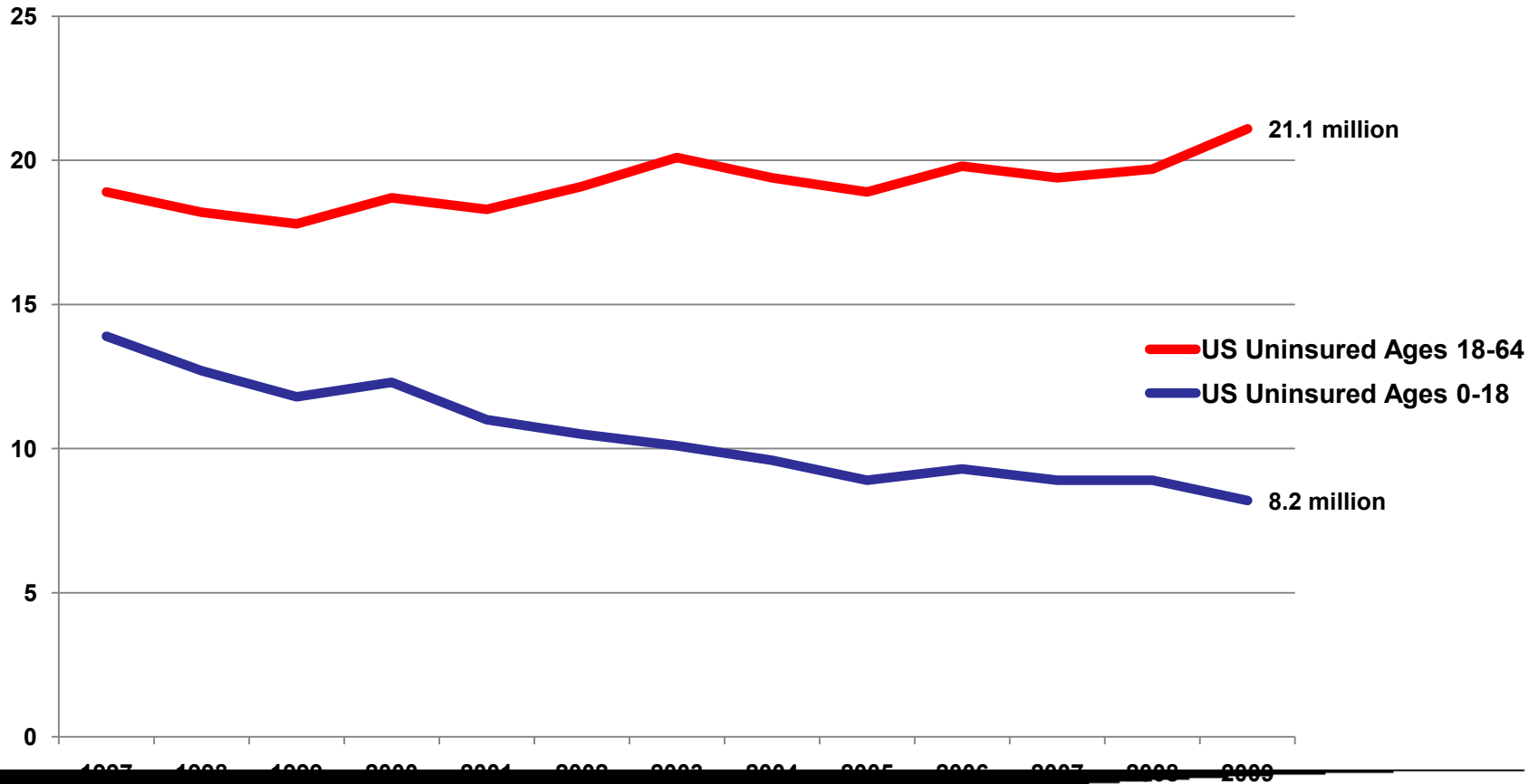
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# At 17% of GDP, millions of people still uninsured

CDC, National Health Interview Survey: <http://www.cdc.gov/nchs/data/nhis/earlyrelease/insur201012.pdf>

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## 2<sup>nd</sup> challenge: Provide healthcare for the uninsured

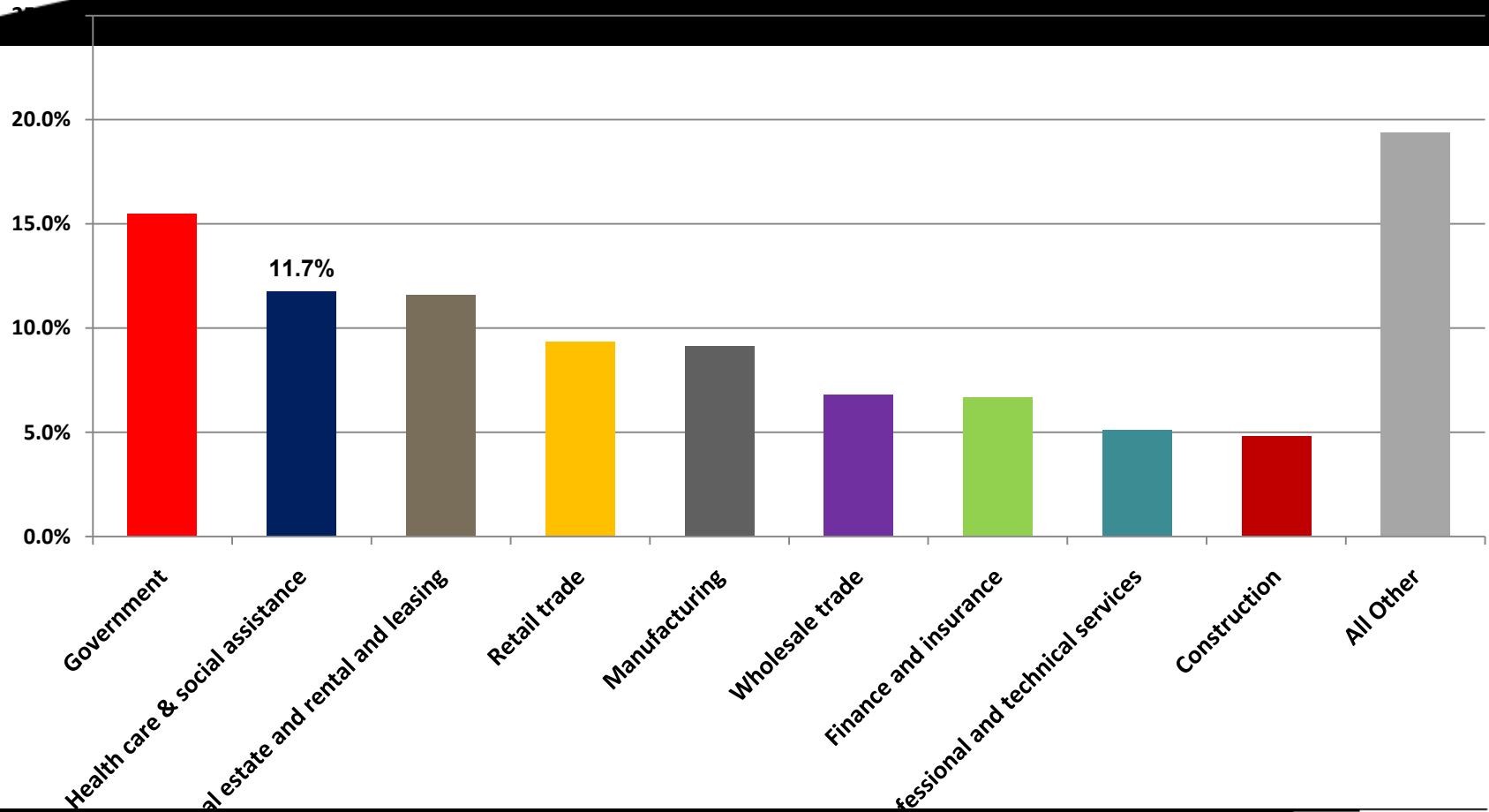
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- Rate of the uninsured varies by state & by age....(income, education, race)
- Finding solutions for this population at the heart of the ACA
- Consequences of ACA's approach(es) to the uninsured – focus of remainder of talk,  
w/ some about the cost of healthcare delivery

# A bit about Spokane healthcare sector.....it's big

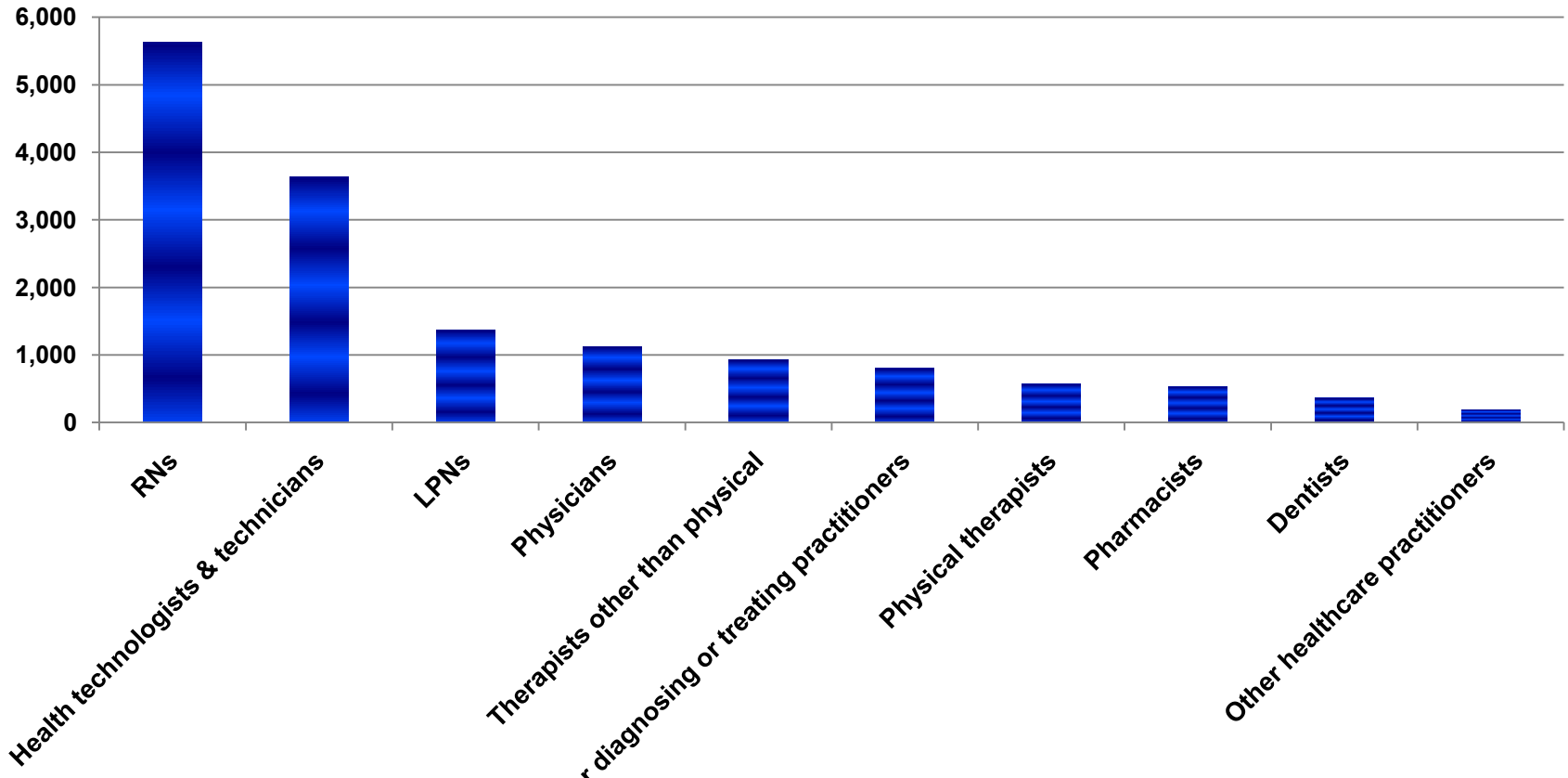
2008 Metro GDP Shares (Bureau of Economic Analysis)

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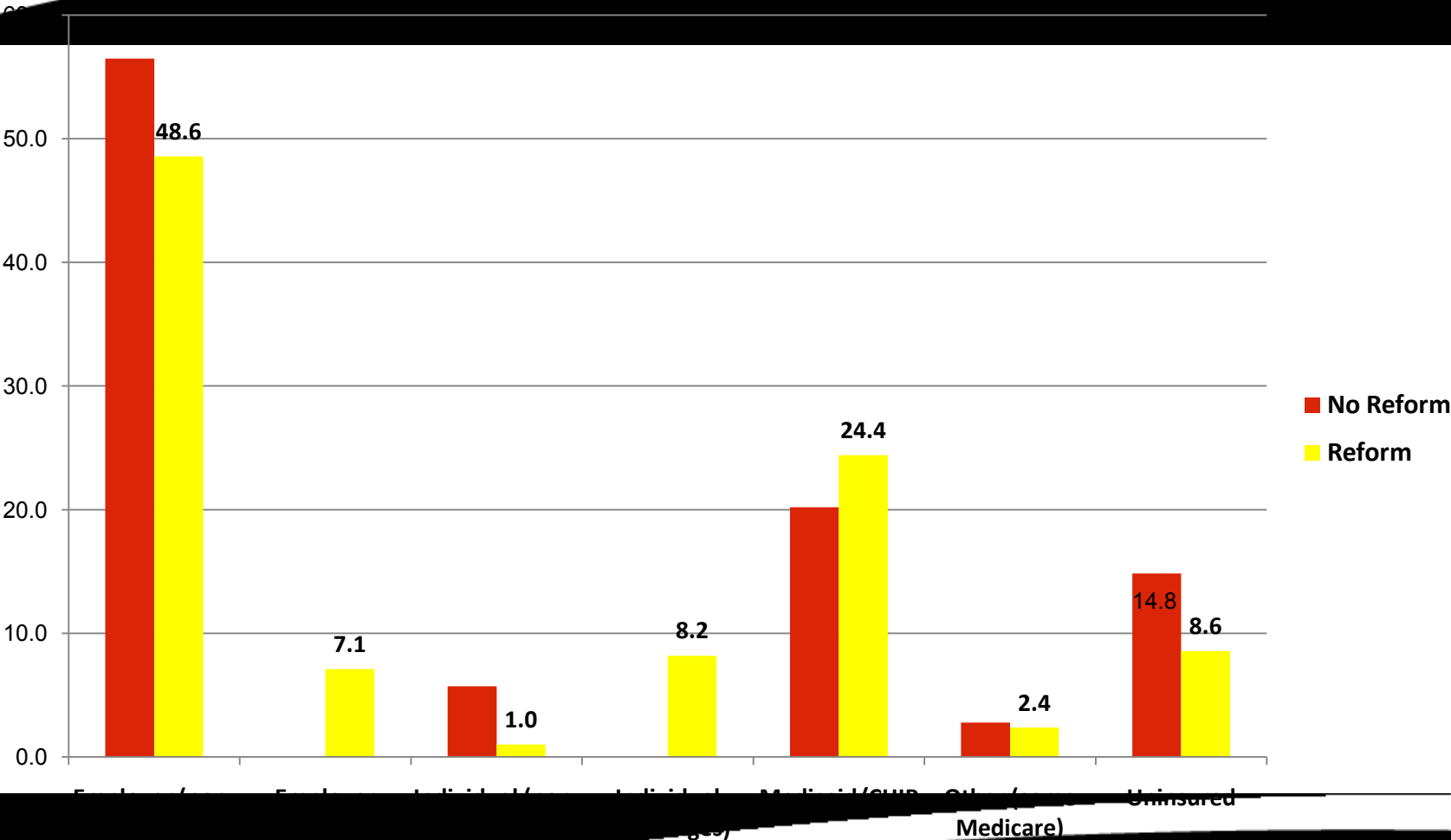
# 2008 Spokane H-Care providers ~ 15,150, by sub-sector

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# Projected changes in distribution of insurance coverage of the <65 population in Spokane from ACA *(%; my calculations)*

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# By 2020: significant changes in Spokane in the number & pattern of insured, non-Medicare population



- Estimate of newly insured in 2020: ~**60,000**
  - Due to expanded coverage of existing (2010) non-senior population: ~25,500
  - Due to population growth of age < 65: ~34,000 (OFM)
- Shifts in coverage due to the ACA
  - *Individual policies*: Large jump, largely via the exchanges
  - *Medicaid*: big boost, due to the extension of program to non-parent, non-pregnant adults w/ incomes < 138% of the FPL
  - The *uninsured* – large decline



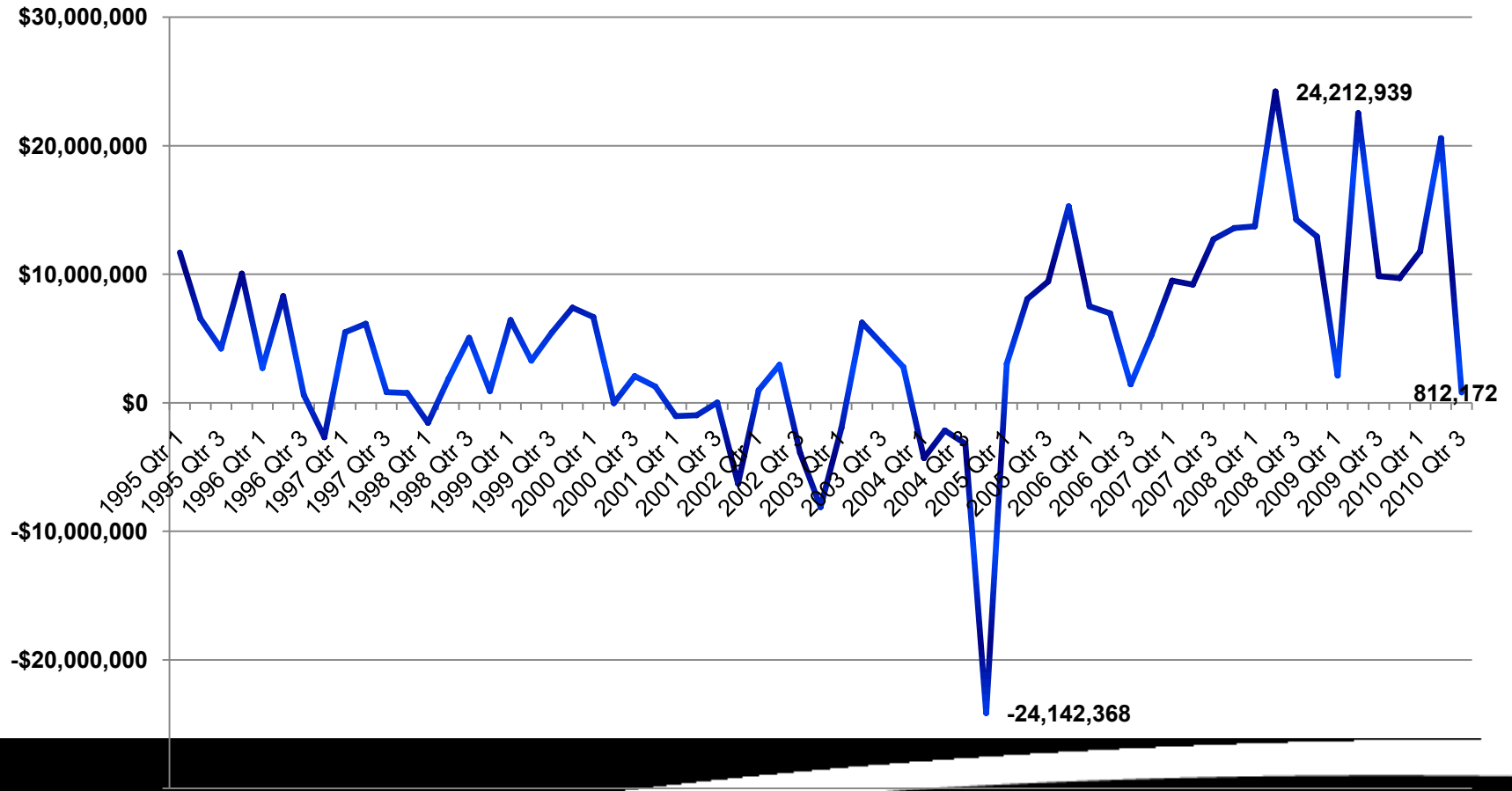
# Hospitals in Spokane – lots at stake



- Providence & CHS – County's two largest private employers
- Hospitals make up ~ 40% of Spokane's health care sector, by GDP
- Two systems going through a profound shift from 5 years ago
  - Local ownership has disappeared
  - At least one has more resources than would have been the case.
- INHS – in jeopardy

# Hospitals in Spokane – volatile financial results

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# ACA to Hospitals: face across-the-board Medicare reductions & will be “at risk” for variable reimbursements



- Based on reductions in the annual market basket update
  - Decrease based on U.S. non-farm, multi-factor productivity rate
  - \$113B over 10 years
- ACA will also take a small percentage of Medicare base fee away, then reward certain PPS hospitals for improvements to outcomes of in-patient services ⇔ *Value-based purchasing*
- Other at risk or reduced payments
  - Disproportionate Share (DSH)– Medicare & Medicaid (\$36B)
  - Re-admissions w/in 30 days of discharge (\$7.1B)
  - Low volume hospitals (bottom quartile) (\$1.4B)

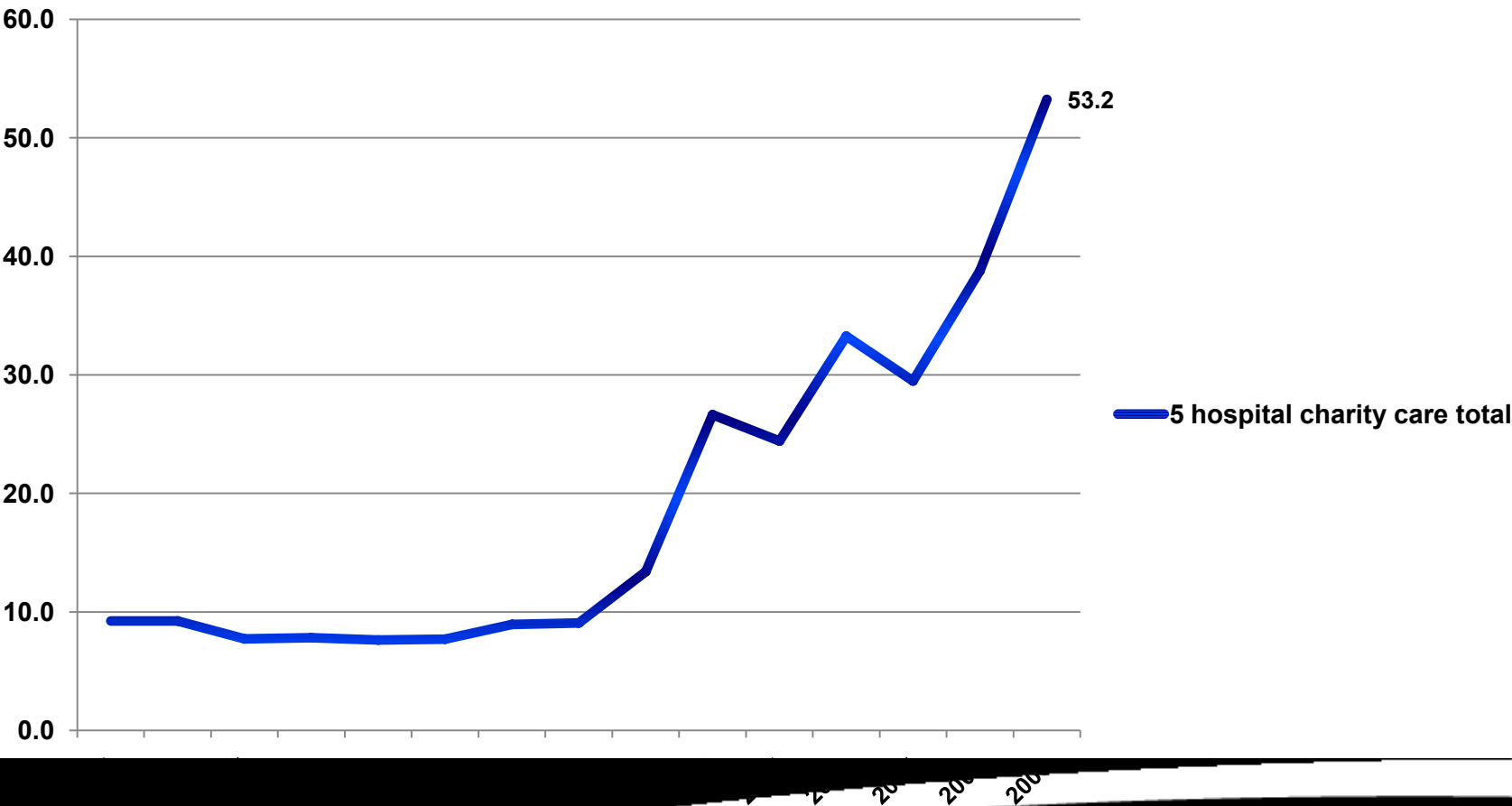
# ACA & Hospitals – why a favorable response?



- Already responding to demands for quality & transparency
  - State efforts, including WSHA's
  - Insurance companies, such as WellPoint, instituting value-based purchasing
- Reduction in charity care: in the US, about 28M newly insured (if 2019 were today)
  - ⇔ Hospitals acquiring a large number of paying potential patients
    - Private (group & non-group): ~11.5 million (if today)
    - Medicaid: ~17 million (if today)
- “Do the right thing” (especially for non-profits)

# ACA & Spokane Hospitals: Charity care trends

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# ACA & Spokane hospitals: Intensifies existing trends, with a potential pay-off



- Productivity & quality deductions to the Medicare base rates will ratchet up the pressure for greater efficiency
- Integration with other providers will continue, via purchases or operating agreements; ACOs will accelerate this
- Could shed ~50% of charity care; in return, pick up lots of new Medicaid patients. But.. will they be able to cover their costs?
- Trend toward outpatient care will likely continue

# ACA & Business: Basics



- Very small businesses (< 25 fte employees): Eligible for tax credits for health insurance premiums paid
  - To do so, must contribute at least 50% to total premium of
  - 2010-2013:
    - up to 35% of premiums paid available as a tax credit, if average salary <\$50K
    - Full 35% available to firms w/ < 10 employees & average salary < \$25K
  - 2014-2016
    - Up to 50% of premium paid to plans in state exchange available as tax credit
    - Full credit has same size stipulations as in earlier years
- *Nothing*, either credit or penalty, applies to businesses with fte employees > 50 until 2014

# ACA & Business: 2014 on



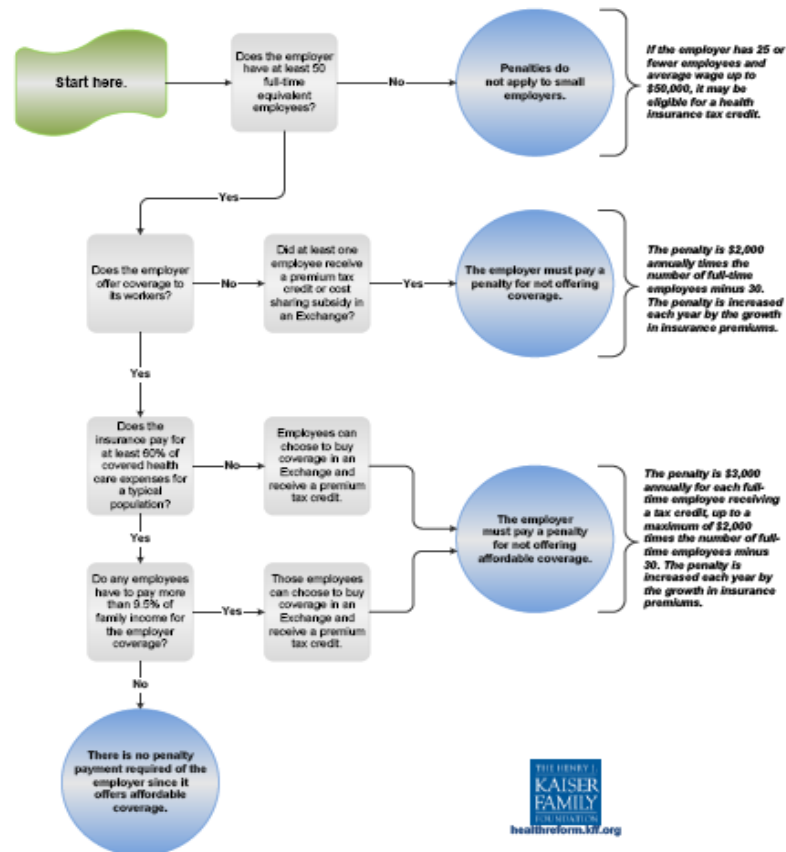
- ~~ACA~~ ~~assessment~~ applied to firms with fte employees > 50 who do not offer insurance to all employees
  - \$2K/year for each *full-time* employee, if one full-time employee receives subsidized insurance through the state exchange
    - Assessment does not apply to first 30 employees, nor to part-time employees
- Similar assessment on firms with fte employees > 50 who offer coverage but whose payment is < 60% of total premium
  - \$3K/year for each publicly subsidized *full-time* employee or \$2K/year for each full-time employee
- No penalties on firms that self-insure, nor on firms with fte

# Decision tree re: employers' responsibility

<http://healthreform.kff.org/the-basics/employer-penalty-flowchart.aspx>; <http://healthreform.kff.org/Faq.aspx?tag=employers>

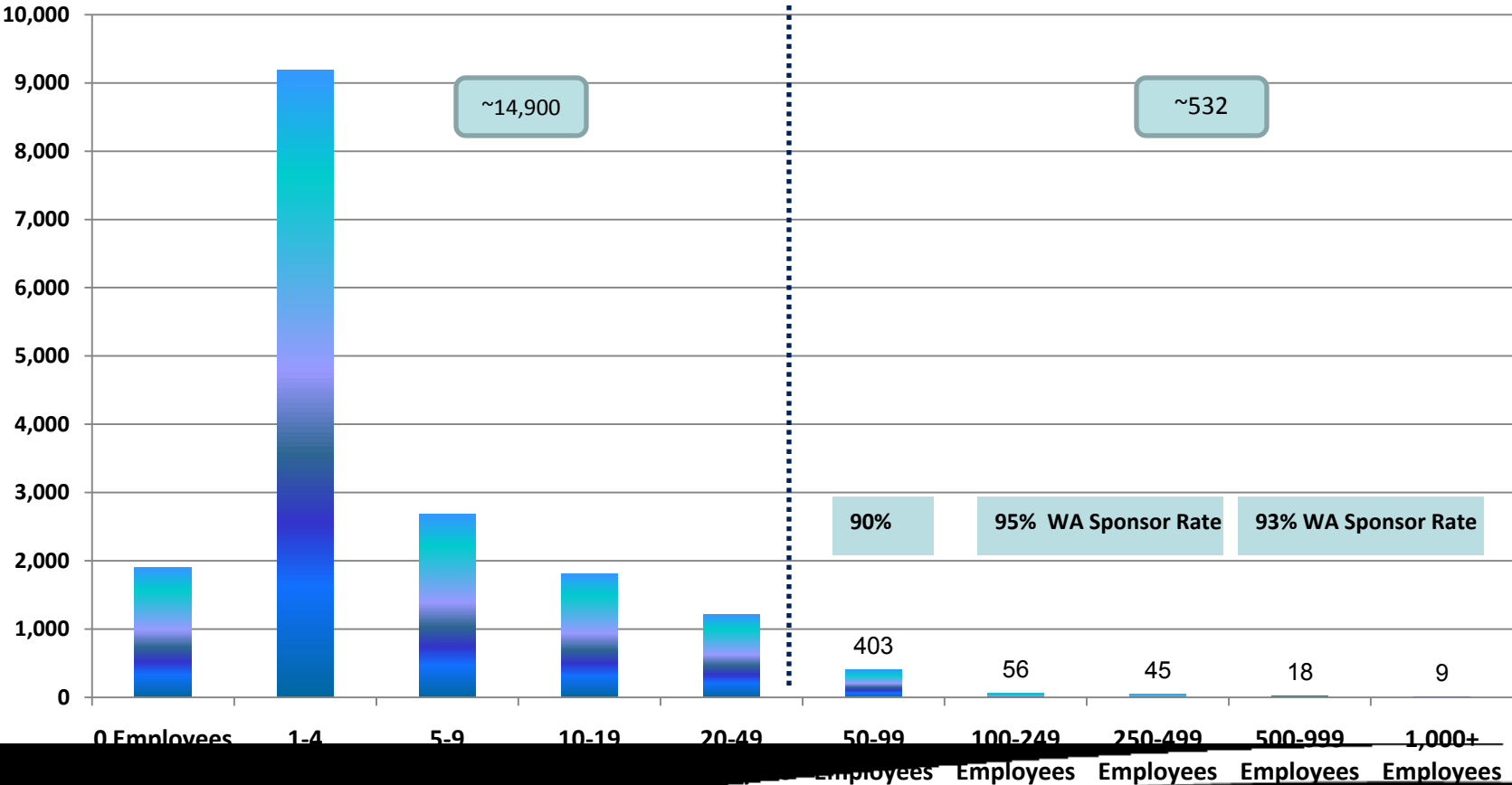
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## Penalties for Employers Not Offering Affordable Coverage Under the Affordable Care Act Beginning in 2014



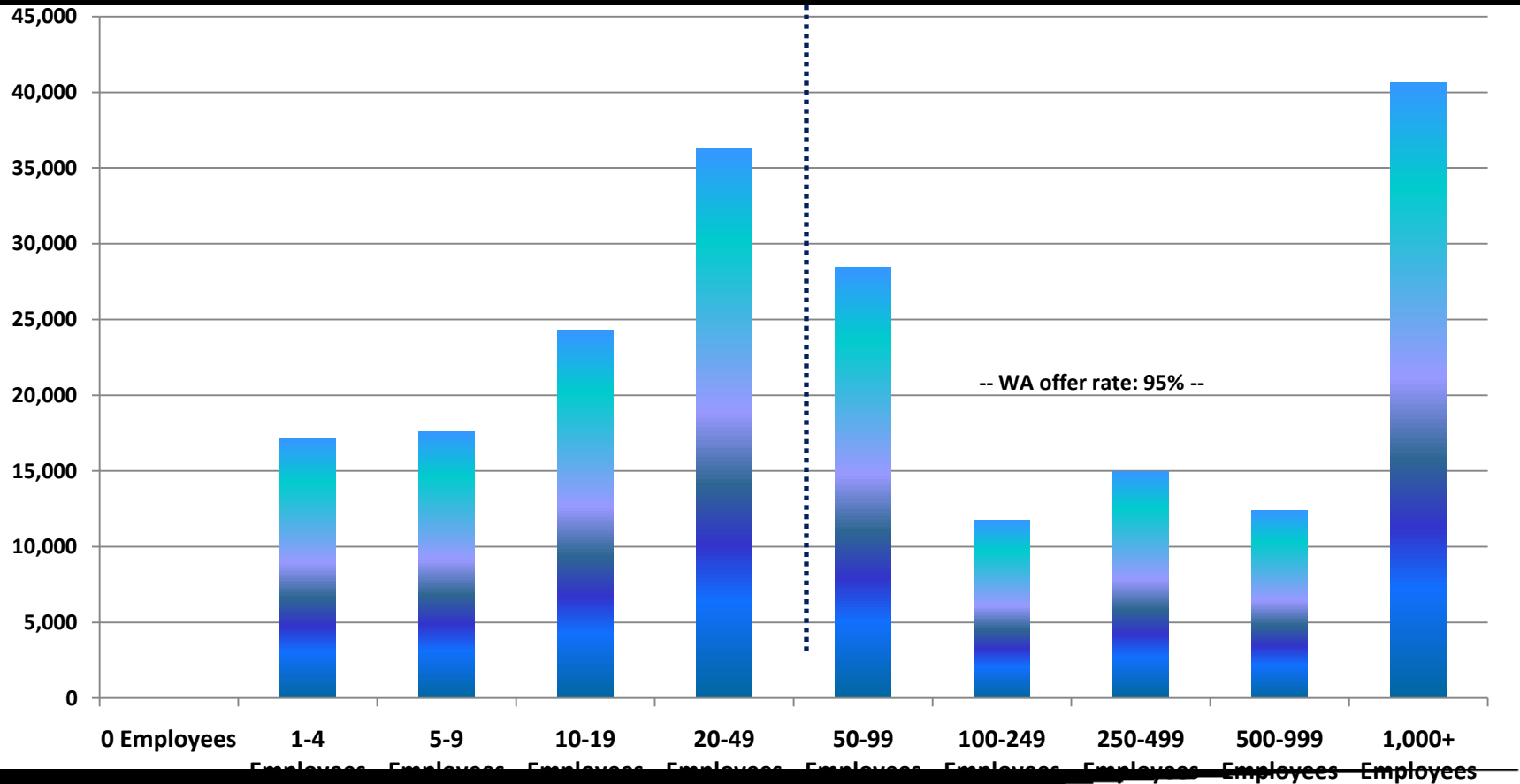
# ACA & Spokane County: very small businesses prevail

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# ACA & Spokane County businesses: Distribution of *workforce*, by size of firm

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# Further exceptions to business assessments



- Assessments do not apply to business with  $> 50$  fte employees, *if* this number is reached by a seasonal labor force (120 days or less)
  - Likely important to Spokane's large retail and wholesale sectors, and corresponding seasonal staff
- Number impacted can be significantly reduced by firms *self-insuring*
  - No longer an option only for the very large companies
  - Mark Newbold

# ACA & Spokane businesses – quick summary



Many small businesses will qualify for the subsidies until 2016

- County has around 14,000 businesses with 1-25 employees
- Average annual wage (LMEA) in 2009 for all firms: ~\$38,000
- Based on average wage, likely qualifying industries will be:
  - Wood product manufacturing
  - Hospitality industry
  - Retail trade
  - Nursing & residential care facilities
- Not too many local businesses likely to be impacted by penalties after 2014: Maximum in the category slightly ~ 500
  - Guess: many of this size already offer conforming health insurance
- *But....*clear that paperwork will be challenging for small biz



# Significant Spokane sectors & players omitted today



Physicians & ambulatory care professionals

- Federally qualified health centers – CHAS
- Insurance sector – carriers & brokers
- Laboratories
- Public health

& WA



# ACA's open questions, locally and state-wide



- *Will actual consumer behavior follow the simulation models?*
  - Ex: will the WA exchange's individual markets expand as much?
  - Ex: will the Spokane Medicaid take-up rate hit the levels anticipated?
  - Ex: will the individual mandate penalties/incentives work as planned?
- *Will the local provider behavior follow intent of the ACA?*
  - What will the provider response be to the PQRI & *Physician Compare*?
  - Will PCMHs move beyond Group Health?
  - Will ACOs develop here or hospitals simply acquire more practices?
- *How will the exchanges work?* MA vs. UT model

# ACA's open questions, generally



- Can these changes take place within the timeframe granted?
- MA started its insurance reforms in the 1990s
- WA state budget is severely challenged over the next biennium
- Can “bundled payments” actually be put into practice?
- Will the healthcare workforce be adequate under current supply projections?
- Will the ACA's aggregate cost come in by 2019 at ~ \$940B and will it be cost-neutral to the budget?

# Will ACA succeed in addressing its 2 large targets?



- Dramatically lowering the number of uninsured?
  - Yes
- Bending the cost curve, so medical expenditures as a share of GDP stabilize (or even decline)?
  - Jury is out
  - Safe to say, not immediately
  - But ACA enables pilots, analysis and recommendations that will set the stage for the latter half of this decade and beyond.

# Thank you!

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